SCOTLAND AND THE INTERNAL MARKET

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Introduction

There can be few who remain unaware that the European Communities (EC) is now entering the final phase of the internal market programme. This programme, launched in 1985 with the publication of the Commission's White Paper "Completing the Internal Market"[1], comprised almost 300 individual pieces of legislation which, when implemented, will establish a truly "common market" between the Community's twelve member states. Consequently, from the 1st January, 1993, all forms of national discrimination which have hitherto constituted a barrier to the free movement of goods, services, capital, and labour across member states will have been abolished. According to the European Commission, completing the internal market will pay a substantial dividend to the Community's economy. In 1988, the Commission published the results of a study headed by Paolo Cecchini[2] which suggested that completing the internal market would, over the medium term, create some 1.8 million new jobs across the Community, add 4.5 percentage points to Community GDP, and reduce the average level of EC prices by around 6%. At the same time, the study argued that completing the internal market would improve Europe's external trading position, particularly in the vital area of high technology products where there is clear evidence that Community producers have been losing ground in world markets to their Japanese and American rivals[3].

Although the findings of Cecchini and others point to gains accruing to the Community as a whole, much less attention has been paid to assessing how the gains from the internal market will be distributed between the different regions of the Community. In particular, there is a clear concern that the already weak regions of the Community will be further disadvantaged as producers (re)locate their activities closer to the centre of the newly completed internal market. As Begg[4] notes, the European Commission, in their 1985 White Paper, acknowledged this possibility:

> "The Commission is...conscious that there may be risks that, by increasing the possibilities for human, material and financial services to move without obstacle to areas of greatest economic advantage, existing discrepancies between regions could be exacerbated and therefore the objective of convergence jeapordized."

As a small, open economy located on the periphery of the Community, there is an obvious risk that Scotland may be adversely affected by the emergence of a single Community market. In this chapter we consider just how acute this danger is. In Section Two we sketch the content of the internal market programme and examine the adjustment mechanism that underlies the Commission's estimates of the benefits. Section Three assesses the regional implications of the internal market programme, examining in as much depth as is presently possible the potential impact upon the Scottish economy. In Section Four we focus on the role which public policy might play in the light of our analysis. Finally, in Section Five, we offer some tentative conclusions.

Completing the Internal Market: Some Conceptual Issues

It is by now well known that the aim of the internal market project is to remove the remaining physical, technical, and fiscal barriers that restrict the movement of goods, services, capital, and labour within the Community. Physical barriers refer mainly to the added costs that traded goods must absorb as a result of the administrative delays regularly encountered at border crossings, and to the inconvenience to EC residents from customs checks as they move across the Community. Technical barriers to trade comprise a host of different national policies that restrict the access of products, or factors of production, originating in one member state to the domestic market of another. Chief amongst these are national regulations defining minimum product standards and different certification procedures; preferential public procurement policies; non-recognition of professional qualifications; controls on the provision of services – such as transport, banking and insurance – by non-nationals; and controls on the intra-area mobility of capital. Finally, under the heading of fiscal barriers is the impact that differential indirect tax rates (i.e. Value Added Tax) have on intra-EC trade. The attempt to establish a broadly uniform rate of VAT within the Community reflects the Commission's view that widely differing VAT rates will be untenable given that the border posts which presently ensure that imported products are taxed according to the rate applying in the destination country are set to disappear. Should VAT rates throughout the Community not be approximated (a small degree of variation is posible), then cross-border shopping would inevitably reduce the tax revenue accruing to countries applying above average VAT rates.

Of course, the objective of establishing a common market in the Community is nothing new, this being expressly provided for in Article 2 of the 1958 Treaty of Rome. And whilst the original motive for West European economic integration was that it would lay the foundations for political unification between the participating countries, it remains the case that substantial economic gains are commonly associated with this type of arrangement. Free trade ensures that consumers benefit by having access to the lowest cost supplier in the area, while over the longer term costs of production are expected to fall as firms increase the scale of their operation at

the expense of the less efficient producers. Moreover, should the average cost of production for firms operating in the common market fall, their competitive position in global markets will also improve. At the same time the liberalisation of intra-area capital and labour mobility will ensure that factors of production are allocated where their returns are highest. Assuming that factor returns are proportional to the value which individuals place on the output they produce, unregulated factor mobility must raise the level of welfare across the common market as a whole. The outcome is an area in which prices are lower, employment is higher, and the rate of economic growth greater, than would otherwise be possible.

The objective of the internal market programme is to promote the economic prosperity of the Community by unlocking these supply-side adjustments. But if the gains associated with a common market are so high, then one must ponder as to why it has taken the EC over thirty years to complete this arrangement. The answer, of course, lies in the transition problems that particular countries (or regions) are likely to experience as they open their markets to foreign competition. For it is undeniable that the corollary of exploiting the gains from integration by the mechanisms described is a change in the geographic distribution of economic activity throughout the area. In a perfect world, this should create no long term difficulties. The removal of trade barriers will, assuming they were effective, result immediately in imports displacing some part of domestic output. However, as domestic exporters will now enjoy easier access to foreign markets, the resources freed by import competition should speedily be absorbed by the expanding export industries. In short, as the textbooks tell us, free trade enables countries, and regions, to specialise in the production of those commodities, or services, in which they have a 'comparative advantage'. But, unfortunately, textbook stories are seldom applicable to the real world.

There are profound problems with the conclusions of orthodox trade theory when applied to the mature, industrialised economies of the European Communities. The assumption that a clearly defined national, or regional, comparative advantage exists over a wide range of economic activities (manufacturing and services) is explicitly rejected by contemporary trade theorists. Because the bulk of trade between industrial economies comprises of imports and exports of similar, and thus competing, products, the distribution of activity following the removal of trade barriers will depend substantially upon the relative competitiveness of individual enterprises, and less on national resource endowment. And given that free trade enables the most competitive firms to increase the scale of their operations as they capture markets from less efficient producers, then assuming that unit-costs and so prices fall as their scale of production rises, it is easy to see how the initial distribution of sectoral competitiveness between nations prior to adopting a free-trade policy will be crucial in determining their longer term fortunes. The upshot is that where technical conditions in production dictate that a small number of large firms is a more cost-efficient manner of servicing the market than a large number of small firms, then completion of the internal market will inevitably be accompanied by some element of industrial rationalisation. In the event of this shake-out, where 'comparative advantage' in fact means 'competitive advantage', uncompetitive countries, or regions, will be seriously disadvantaged. Indeed, it was precisely this logic that persuaded many in the UK during the early 1970's that EC membership would serve only to expose the underlying competitive weakness of British industry, thereby worsening rather than improving our long term economic prospects. In this light, we can see that the notion of "adjustment" becomes highly problematic.

First, how long will it take for a disadvantaged area, as defined, to restructure its economy following a change in the trading environment? In other words, over what time scale will any transitional problems of falling output and rising unemployment last? As is well known, exponents of the liberal tradition in economic analysis insist that this depends crucially on the degree of wage flexibility that prevails, as only a reduction in wages will be effective in attracting new investment. Ignoring the point that a low wage economy is not necessarily any more desirable than a low employment one, this view fails to recognise the importance that employers attach to the skill and adaptability of labour in their investment decisions. In the UK, education and industrial training have been amply demonstrated to be instances where, left to itself, the market will fail to provide an adequate supply.

Secondly, upon which activities will the vitality of the disadvantaged country or region depend subsequently? If the economies of scale argument raised earlier is relevant, there is, in principle, nothing to prevent the advantaged region or country from capturing an ever larger share of output and employment in those sectors in which latent economies of large scale production reside. Although there are countervailing forces at work which will ultimately limit the operation of centripetal forces for any particular sector – distance from market, internal diseconomies of scale, congestion costs, labour shortages, etc. – it nonetheless remains unclear as to how far the centralisation process will proceed before these countervailing forces come into play.

Finally, even where an adjustment process of sorts operates, this might be insufficient in itself to prevent the **relative** prosperity of a disadvantaged country or region from declining. Not all types of economic activity make an identical contribution to the rate of economic growth. In fact, a cursory examination of the sectors in which intra-Community barriers to trade are highest, therefore where the fragmentation of the internal market is at present most acute, clearly shows a concentration within the high-technology, high-growth sectors. Consequently, it is in these sectors that rationalisation, or re-structuring, will be most pronounced after 1992. Assuming that these industries will prosper more in the advantaged areas than elsewhere, there is a distinct possibility that completing the EC internal market will widen regional disparities within the Community.

Is Scotland a Disadvantaged Region?

The concept of a 'disadvantaged region' is, as we suggested earlier, inextricably linked to its competitive position. Can Scotland be construed as disadvantaged, and, if so, what measures can be taken to remedy this deficiency? Begg[5] identified six general characteristics which will influence the position that a region will occupy in the post-1992 'advantages' league table; proximity to the market centre; economic infrastructure; price and quality of the labour supply; the composition of regional economic activity; the role that the barriers to be removed at present play in sustaining economic activity; and the actual and potential impact of public policy measures. We would suggest that a seventh characteristic be added to Begg's checklist, namely the technological characteristics of the dominant activities within the region.

The first three characteristics can be dealt with fairly briefly. In terms of proximity to the market centre, it is obvious that the completion of the internal market will increase Scotland's comparative peripherality. Producers in Scotland will experience an intensification of competition in both UK markets and elsewhere in the Community, and although transport charges form a small part of total production costs, at the margin they may well be important in determining the relative competitiveness of a range of products[6]. However, it is not only physical distance from the market which matters. As McKinnon and Hart[7] demonstrate, the quality of the transport system in terms of frequency and reliability of service is equally important. The clear implication is that if peripherality is not to become a greater burden on the Scottish economy than is presently the case, public policy must be directed to providing a transport system explicitly geared to the needs of Scotland's industry well into the next century. Precisely the same arguments can be made with respect to Scotland's economic infrasatructure, where this is defined to include the communications and information technology networks necessary to many modern industrial and service concerns. The final, purely supply-side, aspect is the role that price and quality of factors of production play in influencing the overall competitive position of a region. Recent findings suggest that of the two, it is factor quality rather than factor price which is crucial. O'Farrell and Hitchens[8] in an important and wide ranging study found that Scottish based small and medium sized enterprises displayed a lack of competitiveness compared to their matched southern English counterparts. In their explanation for this, they concluded: "Lack of skills and inadequate training at several levels – managerial, intermediate/supervisory, and shopfloor – is the major proximate cause of the manufacturing problems." Significantly, by arguing that, "wage rates do not contribute in any way to variations in competitiveness between the two regions", they add to the suspicion which many harbour that whatever the regional problem is, it is unlikely to be resolved by a general reduction in wage rates.

We now consider whether the present structure of the Scottish economy is to our advantage or disadvantage as we approach 1992; issues four and five in Begg's checklist. This question was addressed in a previous study by the author[9], whilst a recent study by a group of economists at the Universite Catholique de Louvain examined the implications of 1992 for the traditional industrial regions of Europe[10]. As Strathclyde formed one of the six regions examined by the Louvain group, their conclusions are important to our discussion. Finally we report the results of a study which looked at the potential impact of the internal market on the Scottish financial services sector[11], an issue not considered in the other studies.

In our earlier study, it was shown that by computing intra-industry specialisation indices, the UK economy as a whole was falling behind competitor EC countries as a producer in a number of the high-technology product groups in which intra-EC barriers to trade (especially preferential public procurement) are relatively high. Consequently, it is in these product categories – telecommunications equipment, automatic data processing equipment, non-electrical and electrical machinery, and chemical processes – that the potential for rationalisation is greatest, a point that is confirmed by the Commission's own estimates of the cost-savings associated with larger scale production[12]. Moreover, as these tend to be products in which the rate of growth in demand is above average[13], any tendency for production to be concentrated subsequently outside the UK would certainly lower the long term growth prospects of the economy. There were, on the other hand, groupings in which Britain appeared strong in EC terms. These were pharmaceutical products, aerospace, electronic equipment, and scientific instruments. In at least two of these groups, electronic equipment and scientific instruments, there was, however, some evidence that our competitiveness with respect to non-Community countries was deteriorating. When we turn to the Scottish dimension, we note that 17% of Scottish manufacturing employment, accounting for one-quarter of Scottish net output and over one-half of Scotland's exports of manufactured products, is directly dependent on those high-technology sectors which not only are likely to be prone to rationalisation in the aftermath of 1992, but in which UK competitiveness appeared to be declining.

A second observation made in that study related to the potential difficulties of 1992 arising from the pattern of ownership of Scotland's manufacturing sector. A recent STUC review of the Scottish economic scene, "Claiming the Future"[14], records the extent to which the **branch economy** syndrome has overtaken Scotland in the past two decades. The figures cited show that by the late 1970's only one-third of Scottish manufacturing employment was accounted for by domestically owned firms, with home ownership confined, in the main, to relatively small scale operations. In addition to the general questions raised in the report concerning the economic consequences of this erosion of domestic ownership and control, and the problems that might arise from an excessive reliance on foreign direct investment (FDI) for employment, there is the added risk that "branch

economies" may be more vulnerable to the adverse consequences of 1992-induced industrial restructuring. Not only will the costs incurred by the closure of a branch plant or subsidiary be more easily absorbed by a large multinational corporation than a smaller, locally owned enterprise, but the shut-down decision itself might be taken more readily where the parent company can take distance from the adverse economic and political shock-wave that follows.

On the other hand, however, the high incidence of American and Japanese investment already located in Scotland may induce yet further inflows of overseas capital should multinational corporations fear that the transition to a single market will be accompanied by a rise in EC import barriers. In this event, as Kay[15] has argued, there will be a positive pay-off for Scottish firms who form liaisons with non-EC firms, as they will then be better placed to withstand the inevitable post-1992 competitive challenge from French, German, and other EC-based firms.

The Louvain study[16] also makes somewhat depressing reading from a Scottish perspective. The Louvain team examined the profile and recent economic trends for six traditional industrial regions (RETI) of the EC, including Strathclyde and South Yorkshire, with a view to identifying the adjustment problems that they might encounter in the wake of the internal market programme. Their report begins with a review of the present characteristics of RETI, and highlights the extent to which these regions have suffered an above EC average rise in unemployment and a lower than EC average rise in living standards over the past decade. The secular decline of the traditional industries has not been matched by a growth in new industries capable of soaking up the subsequent rise in unemployment, a factor that has been identified in other studies as contributing to the widening 'North-South' divide in the UK[17]. At the same time, economic recovery in RETI is handicapped by a number of factors; lack of diversity in their productive structure, technological backwardness, and a deficiency of agencies providing strategic advice and assistance to small and medium sized firms. The potential threat to RETI from the completion of the internal market arises from the high incidence of non-tariff barriers that presently protect their dominant industries. On average, some 79% of industrial employment in the six regions is accounted for by industries which will be affected by the 1992 programme, in the sense that rationalisation to exploit latent economies of scale can be expected, although in Strathclyde the employment dependence upon these sectors is even greater. Further, Strathclyde displayed an above average incidence of industries for which the medium term growth potential was low, and which were ill-suited to technological adaptation as a strategy for improving these prospects.

The Louvain group[18] identified three issues which will be crucial in determining the regional impact of the internal market in general; technology, training, and infrastructure. Regions which displayed a dynamic technological profile, those with a trained and flexible labour force, and those where infrastructural policy was explicitly geared to 1992 stood to gain most, and vice-versa. On technology, the authors noted that research and development in RETI tended to be below the Community average. Although this was related to a number of factors – high incidence of typically low R&D intensive industries, inadequate research structures, low participation in EC technology policy, and few science and technology graduates – it is almost certainly true that the high incidence of external ownership of Scottish industry is an added reason for our generally poor R&D record. The importance of training and infrastructure are themes we have already touched upon; suffice it to say that the Louvain study reinforces the view that in both aspects RETI display a weakness when compared to the Community as a whole. When reviewing the contribution that EC structural funds spending has made in rectifying the weaknesses of RETI, the Louvain report argues that policy has tended to prop-up declining industries rather than encourage the development of new industries based on the indigenous potential of the regions. We return to the question of policy in the next section.

The Holmes and Lythe study[19] investigated the post-1992 prospects for the financial services sector, a sector where the present barriers to intra-Community trade are comparatively high and, consequently, where we can anticipate significant changes occurring. It is widely acknowledged that the UK financial service sector is among the most competitive in the Community, this being a consequence of de-regulation in the early 1980's. This has engendered a mood of cautious optimism that British firms stand to benefit most from the internal market initiative in this sector. And to a limited degree Holmes and Lythe share this view. They point to the openings that the internal market will provide for Scottish life assurance companies to expand their business in mainland Europe. Herein lies an important general message for other firms. The competitive advantage that Scottish life assurance firms currently enjoy over rivals is a consequence of the expertise they have steadily acquired in specialised, or "niche", markets. Manufacturing firms should take note; a strategy based on product specialisation may, in the enlarged market, be a more fruitful reaction than attempting to compete across an entire product range. However, Holmes and Lythe also point out that banks may tend to favour a more central location from which to conduct certain aspects of their non-retail operations post-1992, raising the prospect that "headquarters might follow and thus leave Edinburgh"[20].

Taken together, the evidence reviewed here does constitute grounds for concern that, all else being equal, completing the internal market could well adversely affect Scotland's medium-term economic prospects. We now turn to the question of policy. Most economists would accept, even today, that policy-makers have a clear responsibility in those instances where the operation of market forces alone cannot ensure that the best possible outcome is achieved. And there is clear evidence that market failure is already characterising Scottish business in the run up to 1992. The January 1990 edition of *Scottish Business Insider* carried the results of a survey of the views of Scottish management which showed that withstanding the challenge of overseas competition, (which will inevitably intensify after 1992), was identified as the main strategic objective by only 9 of the 100 respondents involved. The same survey showed that virtually none of the respondents considered exploiting technological change as a priority, while developing new markets was similarly discounted by the overwhelming majority as an important strategic objective. To this author, the research findings which have been reviewed here show that the 'free market' in Scotland at least is failing quite spectacularly to induce the appropriate response.

A Policy Response

It is worth emphasising that although it is our judgement that certain areas stand to lose upon completion of the internal market, we are neither contesting the proposition that gains to the Community as a whole will accrue, nor are we arguing that completing the internal market is necessarily a bad idea. Indeed, if the Community as a whole is to recover the economic dynamism that characterised its early years, we would accept that the 1992 programme should be realised in its entirety. One incontrovertible conclusion that can be drawn from the experience of both the USA and Japan is that access to a large domestic market is an important factor in determining global competitiveness and, consequently, general economic prosperity. At the same time, however, sufficient evidence exists to suggest that if the rising prosperity is to be shared by all, appropriate policies must be devised and implemented.

It is unlikely that the type of regional policy favoured by national authorities in the past is relevant in the changed economic circumstances that will accompany 1992. In the first place all national policies which, either directly or indirectly, subsidise domestic producers in order to improve their competitiveness vis-a-vis partner country firms, are directly contravening EC competition policy. Under Article 92 member states are already constrained in the assistance which they may give to industry, and recent developments have made it clear that the European Commission intends to crack down on all types of financial package that may be construed as a hidden subsidy. In 1989 the Commission published the results of their first inventory of all types of State assistance to industry, clearly a prelude to further action in this area. Secondly, as noted in a recent review of regional policy[21], locational subsidies are increasingly unlikely to attract investment from high-technology firms for whom a skilled labour force and appropriate infrastructural facilities are the dominant locational considerations. Finally, the aims of UK regional policy have, in the past, regularly come into conflict with those of national industrial strategy. Frequently, resources have been diverted to industries in crisis in order to ameliorate regional economic imbalances. Not only has this effectively retarded the essential process of industrial adjustment in the UK, but it has served to further reinforce, rather than modify, regional dependence upon a narrow range of traditional, and in many instances declining, industries.

In considering how national regional policy might be framed in the light of 1992, it is important to recall the significance that technology, training, and infrastructure have in determining overall regional competitiveness. In other words, the distribution of industry will tend to reflect the distribution of these supply-side elements, so crucial in the production process. Consequently, it would appear more appropriate that policy should be designed with a view to improving these aspects of competitiveness, rather than attempt to direct or subsidise industrial location. Not only would this be likely to encourage a capital inflow to the disadvantaged regions, it would almost certainly assist in the development of existing – and foster the emergence of new – local enterprises. However, the issues of policy instruments and policy management then become important. In their Final Report, the Standing Commission on the Scottish Economy[22] presented a number of recommendations designed to improve the competitiveness of the Scottish economy along the lines that the preceding analysis suggests is necessary. More significantly, the Report argues that not only does more finance need to be channelled into regional policies in the UK, but that the administrative arrangements governing the spending of monies have to be changed in favour of local, rather than national, control. As para 3.1.161 of the report puts it; "Centralised (regional) policies are bound by administrative inflexibilities and lack of local knowledge and are unlikely to be particularly appropriate". This is a conclusion with which we wholeheartedly concur.

And it appears to be a conclusion that is broadly shared across the European Communities. Over the past five years, changes that have been made to EC regional and social policies, and the introduction of new policy initiatives, reflects a conviction that the problem of regional imbalance within the Community can only be attacked by a concerted effort to exploit the indigenous development potential of the regions themselves.

In the first place, Community regional policy is developing an identity of its own, after almost twenty years of being firmly tied to, and constrained by, national regional policies. From January 1989, EC regional policy recognised five categories of problem region across the Community, and committed funds accordingly. The two main categories are Objective 1 regions, defined as structurally backward regions where per capita GDP is less than 75% of the Community average, and Objective 2 regions, being those experiencing structural decline[23]. By the end of 1992, 80% of regional fund spending will be absorbed by Objective 1 regions, and 20% by Objective 2 regions. Moreover, this assistance is expressly designed to finance development programmes rather than individual projects, the aim being to enhance and exploit the indigenous development potential of the region[24]. Thus the new regional policy is important not only because it severs the link that previously existed between national and Community regional policy, with the latter being wholly subservient to the former, it also reflects a widespread acceptance of the

philosophy of integrated regional economic development founded upon a partnership between local, national, and Community authorities.

Secondly the Community is promoting, via the STRIDE programme, what they describe as research, innovation, and technological development (RTD) in disadvantaged regions (particularly Objective 1 and 2 regions) where, as we have seen, RTD capabilities tend to be relatively weak and firms' perceptions of the need to innovate equally weak. RTD weaknesses are clearly identified as a barrier to raising the competitiveness of the disadvantaged regions. The STRIDE initiative, launched in 1990, is intended to complement a number of other EC research and development projects which have as one of their aims raising the competitiveness of the disadvantaged regions – for example, STAR (advanced telecommunications services in the regions), VALUE (designed to encourage the dissemination of RTD results), and SPRINT (promotion of innovation and technology transfer).

Finally, the Community has taken steps to coordinate spending between the various funds that each have a role to play in resolving regional disparities. Thus the activities of the Regional Development Fund, the European Social Fund, and the Guidance section of the European Agricultural Guidance and Guarantee Fund are to be dovetailed in an attempt to concentrate resources where they can be most effective. The latter two involve expenditure aimed at retraining labour and combating long term, and youth, employment.

It is evident that the Commission of the European Communities is attempting to get a number of policy initiatives in place ahead of, and in preparation for, the completion of the internal market. However, it nonetheless remains the case that the resources at their disposal, even after the decision of February 1988 to double the structural funds by 1992, are paltry in comparison to those commanded by national authorities. Scotland stands to gain little in the way of direct cash assistance from the EC structural programme, although quality of spending is at least as important as the quantity of funds available. What is more important, however, is the lead that the Commission is taking, and the example it is thereby setting to national governments, in pioneering an approach to regional policy which appears to stand more chance of success simply by recognising the determinants of regional competitiveness.

Conclusions

It is difficult to escape the conclusion that Scotland stands to lose, at least in relative terms, from the completion of the internal market. Moreover, there is evidence to suggest that producers in Scotland are failing to treat the challenge of internal market with the urgency that it most certainly deserves. Although all regions housed within a larger area that experiences a boost to the rate of economic growth may benefit from "trickle-down" effects, this seems a rather tenuous thread upon which to hang our future economic prospects. If the widely publicised gains from 1992 materialise, they will do so only on the basis of industrial re-structuring across the Community. This is the first threat to the Scottish economy. The second threat lies in the opportunities that Scotland's producers may miss, and others may not, by failing to develop a corporate strategy orientated around the Europe of the late 1990's rather than the late 1960's. The enlargement of the market will undoubtedly increase the share of the total market available for producers of specialised products, or those able to define "niche" markets. However, for many firms this requires that they devise an international production and marketing outlook, something that for many has never been needed before. Certainly, the availability and quality of advice that small and medium sized firms have easy access to will be important in determining whether or not these possibilities, and threats, are recognised. But it is not only the private firm that needs to adapt in the light of the 1992 programme; public policy must be equally flexible and responsive. We believe that there are policy measures which will improve the outlook for Scottish firms, indeed many of the recent initiatives taken by the Commission are primary examples.

It would, of course, be wrong to imply that the public agencies in Scotland are doing nothing by way of preparation for 1992. All the Scottish regions have an internal market "unit", and one at least has for many years worked tirelessly to promote itself within the EC context. However, all of these attempts remain constrained by an official UK attitude which has, for many years, displayed at best an ambivalence towards the Communities and, in some spectacular instances, outright hostility. At the same time the "enterprise cult" that has directed the stance of public policy over the past decade may well have robbed Scotland of an opportunity to embark upon publicly funded ventures which would allow us to approach 1992 in an optimistic mood. From the periphery of Europe it seems that many of the other member states are involved in a giant game of chess, with each moving those pieces from which they expect to gain most strategic advantage come 1992. We, on the other hand, are still playing Happy Families.

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18. Louvain, *op cit*.
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23. Most of the Scottish regions qualify for some assistance as Objective 2 areas.
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